THE SOUTHEAST MILK MARKET and its RELATIONSHIP to OTHER MARKETS

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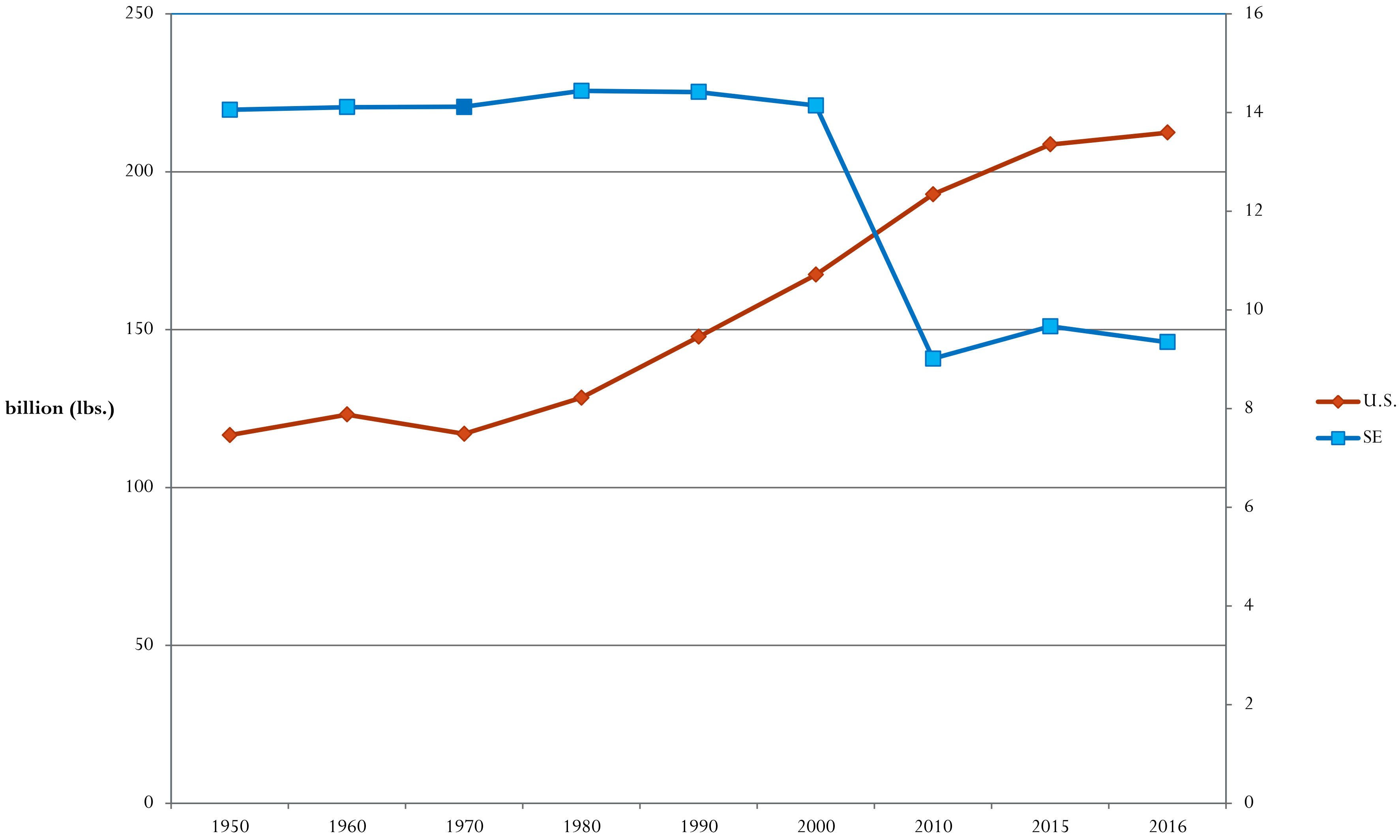
OUTLINE

RELATIONSHIP in TERMS of:

- SUPPLY
- DEMMAND
- PRICE

U. S. and SOUTHEAST MILK PRODUCTION (1950-2016)



ANNUAL MILK PRODUCTION

Year	U.S.	Southeast	Florida	Georgia
	(billion lbs.)			
2010	192.8	9.0	2.1	1.4
2011	196.1	9.1	2.3	1.5
2012	200.3	9.2	2.3	1.5
2013	201.2	9.3	2.4	1.6
2014	206.1	9.5	2.5	1.7
2015	208.3	9.7	2.6	1.8
2016	212.4	9.4	2.5	1.8
% Change 2010 to 2016	**10.2**	**3.8**	**17.6**	**31.4**
Annual % Change	**1.7**	**0.6**	**2.9**	**5.2**

Why DOWN – Then UP

Down

- Unprofitable
- Small farms
- Urbanization
- Regulations (environmental)
- Market-wide pooling

Up

- More milk per cow – learn how produce milk in heat and humidity
- Existing herds expanding and new herds
- 2nd and 3rd generations
- Organized efforts
- Profitable
- Real estate bust

% CHANGE in PER CAPITA MILK PRODUCTION (2015 vs. 2010)

Declined

- Alabama -32%
- Mississippi -27%
- Louisiana -22%
- Tennessee -16%
- S. Carolina -14%
- Kentucky -9%
- Virginia -2%

Increased

- Georgia (5th) +22%
- Florida +13%
- N. Carolina +10%

Source: Central Milk Market Administrator

Shifting North to South
(% of Southeast Production)

State	1950	2000	2016
Florida	4%	20%	27%
Georgia	8%	12%	20%
Kentucky	17%	14%	11%
Tennessee	17%	12%	7%
Virginia	14%	16%	18%
North Carolina	11%	10%	10%

CONCENTRATION

- Nationally – 13 counties 25% of the milk
- Okeechobee County, Florida + surrounding counties = 1 billion lbs. (annual) or 11% of southeast milk production
- Southwest Georgia, 80 mile radius = 750 + million lbs. (annual) = 8% of southeast milk production

DAIRY FARM CONCENTRATION

% of milk	Cooperative A	Cooperative B
25%	4%	1%
25%	7%	3%
25%	17%	7%
25%	72%	89%

Southeast is a Fluid Milk Market (2015 data)

Federal Order	Producer Milk	Class I	Class I %
	(billion lbs.)		(%)
Appalachian	5.65	3.87	68.56%
Florida	2.74	2.32	84.60%
Southeast	5.20	3.91	75.05%
Total	**13.6**	**10.0**	**74.3%**
All federal orders + California	**167.0**	**46.9**	**28.1%**
Southeast %	**8%**	**21%**	

Fluid Milk Market Different Than Manufacturing Milk Market

- Limited storage and inventory
- Not removing water
- Variation in daily and seasonal milk demand – balancing cost = $1.00/cwt.
- Raw product cost higher % of wholesale price (85%) – retail price more sensitive to raw product cost
- Distance from reserve supply and surplus markets

DAIRY DEMAND (U.S. Domestic and Export)

Year	Butter	Cheese	Skim/NFDM Powder	Fluid Milk
	(billion lbs.)			
2010	1.62	10.60	1.85	54.88
2011	1.80	10.90	1.93	54.17
2012	1.83	11.12	2.13	53.33
2013	1.92	11.36	2.16	52.17
2014	1.89	11.78	2.21	50.66
2015	1.84	12.06	2.31	49.92
2016	1.92 (e)	12.38 (e)	2.23 (e)	49.38 (e)
% Change (2010-2016)	**18.8**	**16.8**	**23.2**	**-10.0**
Annual % Change	**3.1**	**2.8**	**3.9**	**-1.7**

SOUTHEAST FLUID SALES

Year	Total Fluid Sales (plants in and outside southeast orders)	Total Fluid Sales (plants in the southeast orders)
	(billion lbs.)	
2010	11.62	11.34
2011	11.37	11.20
2012	11.13	10.87
2013	10.83	10.37
2014	10.61	9.97
2015	10.48	9.97
2016 (estimate)	10.40	9.85
% Change 2016 vs. 2010	**-10.5**	**-13.1**
Annual % Change	**-1.8**	**-2.2**

LESS FLUID MILK PLANTS

FLUID MILK PROCESSING PLANTS

(2000)	(2016)
70	49

- 28 of the 49 have different owners in 2015 versus 2000.

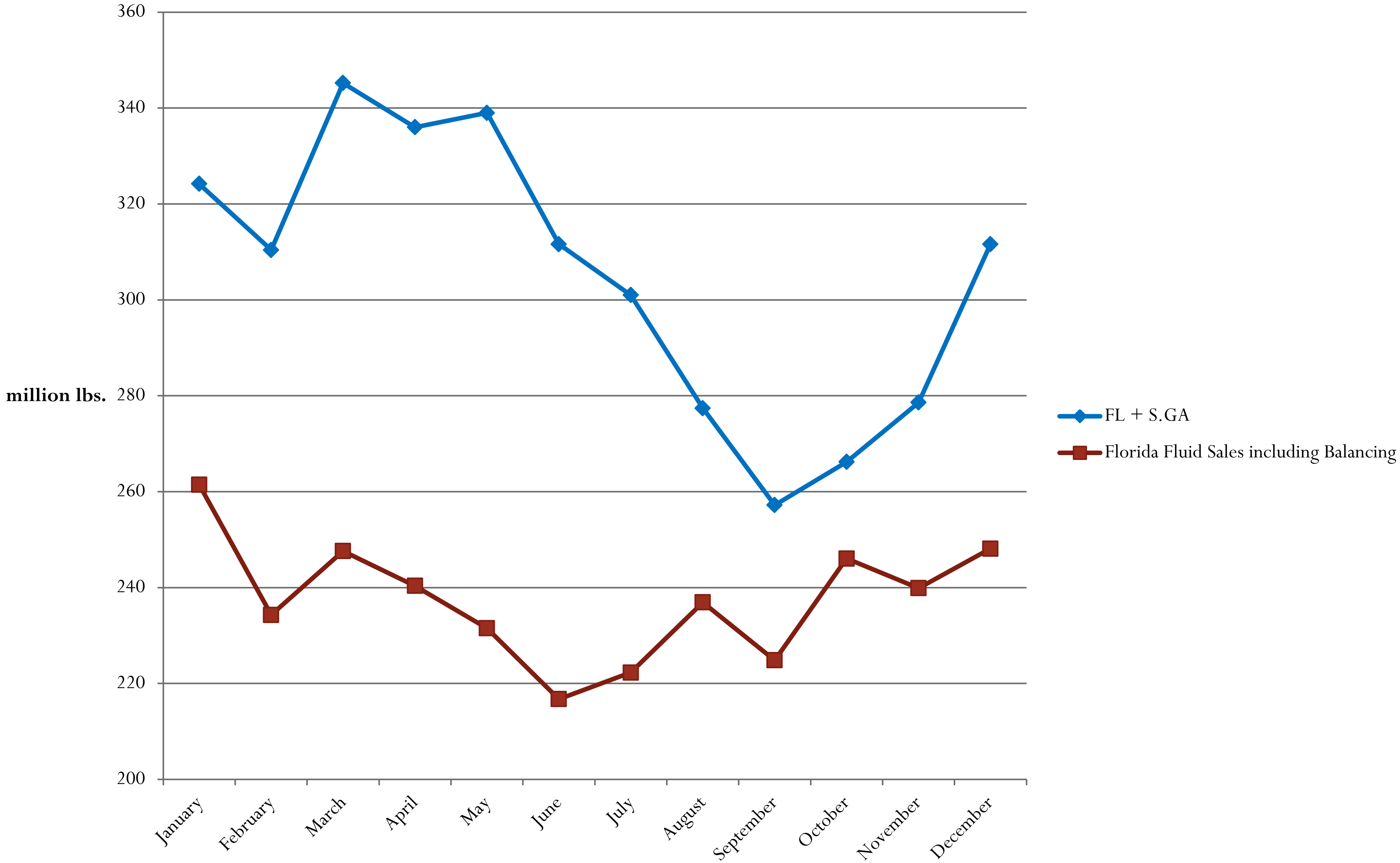
Economic Impact of Declining Fluid Sales

- Estimate if 2016 fluid milk sales were the same as 2010.

- U.S. – additional $0.07/cwt.
- Southeast – additional $0.40/cwt.

(Not accounting for loss on surplus milk or purchases of supplemental milk. Changes in sales or prices of other dairy products.)

FLORIDA MILKSHED PRODUCTION vs. FLORIDA FLUID DEMAND (2015)



SOUTHEAST MILK MOVEMENT CHANGING

- Historically – milk moved north to south.
- Due to milk supply increasing in Florida and Southwest Georgia (Florida milk shed) and fluid sales declining – milk moving south to north.

FLORIDA FEDERAL ORDER vs. FLORIDA MAILBOX

Year	Blend ($/cwt.)	Mailbox ($/cwt.)	Blend-Mailbox ($/cwt.)
2010	$20.12	$19.40	**-$0.72**
2011	$23.70	$23.14	**-$0.56**
2012	$21.95	$21.09	**-$0.86**
2013	$23.53	$22.95	**-$0.58**
2014	$27.82	$27.07	**-$0.75**
2015	$20.90	$19.15	**-$1.75**
2016	$19.23	$17.40 (e)	**-$1.83**

SOUTHEAST FEDERAL ORDER vs. SOUTHEAST STATES MAILBOX

Year	Blend ($/cwt.)	Mailbox ($/cwt.)	Blend-Mailbox ($/cwt.
2010	$18.07	$18.38	**$0.31**
2011	$21.72	$22.00	**$0.28**
2012	$20.03	$19.94	**-$0.09**
2013	$21.78	$21.58	**-$0.20**
2014	$26.20	$25.87	**-$0.33**
2015	$19.27	$18.16	**-$1.11**
2016	$17.55	$ 16.43(e)	**-$1.12**

Why Mailbox Prices Declining More Than FO Blend Price?

- More milk competing for a market in a marketing area with declining sales and fewer markets.
- Lower over-order premiums. Not covering balancing cost.
- More surplus milk.

TAKE HOME MESSAGE

1. Southeast milk production stabilizing, but shifting to Florida and Georgia.
2. Production increasing or holding own, but fluid sales (market) declining.
3. Declining fluid milk sales greater price impact on Southeast U.S.
4. Mailbox prices, in relation to federal order blend prices, declining due to: more milk than local market demand (surplus), increased marketing costs (surplus), and lower over-order premiums.

SOUTHEAST PRIORITIES (my list)

1. Change mindset from “producing” milk to “marketing” milk.
2. Acknowledge southern part of Southeast no longer a deficit milk market. Milk moving south to north.
3. More cooperation among dairy farmers and their cooperatives to improve marketing efficiencies and increase over-order premiums.
4. Slow down or stop the decline in fluid milk sales.
5. Develop more “local” milk markets.